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February 28, 2005

The Honorable Pat Miller
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Re Nashville Gas Company, A Division of Piedmont Natural Gas Company, Inc -
Docket No. 05-00046

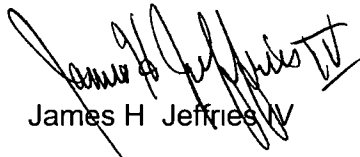
Dear Chairman Miller

I have enclosed an original and 14 copies of Nashville Gas Company's Initial Comments in the above-captioned docket. Please accept the original and 13 copies for filing and return one "filed-stamped" copy to me in the enclosed envelope.

Thank you for your assistance with this matter. If you have any questions regarding these comments you may reach me at the number shown above.

Sincerely,

Moore & Van Allen, PLLC



James H. Jeffries IV

JHJ/srl

Research Triangle, NC
Charleston, SC

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE)	
)	
GENERIC DOCKET FOR THE PURPOSE)	
OF EXAMINING TRA RULES, POLICIES)	Docket No 05-00046
AND PROCEDURES IN LIGHT OF)	
CURRENT TRENDS IN GAS INDUSTRIES)	

INITIAL COMMENTS OF NASHVILLE GAS COMPANY

Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc ("Nashville Gas" or the "Company"), through counsel and pursuant to the *Notice of Filing Comments* issued by the Tennessee Regulatory Authority (the "Authority" or the "TRA") on February 2, 2005, respectfully submits the following comments on and suggestions regarding the Authority's rules, policies, and procedures in light of current trends in the gas industry

INTRODUCTORY COMMENTS

As a general matter, Nashville Gas would like to express its belief that the Commission's existing rules, policies and practices are fundamentally sound and that the regulatory oversight provided by the Authority to Nashville Gas is generally effective. As the Authority is aware, the larger company of which Nashville Gas is a part provides natural gas sales and transportation services in three southeastern states and is regulated by three separate state public service commissions. The collective experience of the Company leads it to conclude that the Authority operates in an efficient and fair manner and that it gives serious consideration and thought to the matters brought before it which may affect the Company. Nashville Gas has no reason to doubt that this manner of conduct will continue and looks forward to working with the Authority and

under its direction in the continuing provision of high quality natural gas services to the Company's Tennessee customers

Specific Comments

Having noted the efficient and effective way in which the Authority currently does business, Nashville Gas does have several suggestions about how the TRA might exercise its jurisdiction more efficiently and effectively for the benefit of ratepayers and the natural gas local distribution companies that serve them. These suggestions are set out below.

I. POTENTIAL MODIFICATIONS TO TRA PURCHASED GAS ADJUSTMENT RULES.

Nashville Gas has two suggested modifications to the Authority's Purchased Gas Adjustment ("PGA") rules set out at Rule 1220-4-7- 01 through 1220-4-7- 05. These modifications are designed to permit the Company, and other Tennessee natural gas local distribution companies ("LDCs") to better manage their respective Deferred Gas Cost Accounts and to avoid large under-recoveries or over-recoveries of an LDC's gas costs.

A. Reduction in the Filing Period from 30 Days to 14 Days.

Currently, Authority Rule 1220-4-7- 02 provides that "to the extent practicable, any revision in the PGA shall be filed with the Commission no less than thirty (30) days in advance of the proposed effective date . ." This Rule permits the Authority to allow PGA changes to go into effect with less notice, but only upon a showing of good cause. This Rule was adopted in a period when the wholesale commodity price of natural gas was relatively stable over time. This is no longer the case as wholesale commodity gas prices now are highly volatile and can change relatively dramatically over short periods of time. Due to this change in the wholesale markets for commodity natural gas, the thirty (30) day notice period is becoming problematic for the Company and is contributing

to greater difficulty in managing its Deferred Gas Cost Account. Specifically, Nashville Gas has found that attempting to make a decision as to whether a change in the commodity cost of gas imbedded in the Company's rates will be needed thirty (30) days prior to implementing such a change is very difficult, if not impossible

The length of notice period currently required for PGA filings increases the likelihood that Nashville Gas (and other LDCs) will be incorrect about the actual commodity cost of gas at the time a PGA goes into effect. This, in turn, increases the likelihood that large imbalances in the Deferred Gas Cost Accounts for the various LDCs serving Tennessee will occur

In order to help mitigate the potential risks associated with having an incorrect cost of gas reflected in the Company's rates, Nashville Gas proposes that the Commission's PGA Rules be revised in order to reduce the notice period for a PGA change to fourteen (14) days. This shorter timeframe should help reduce the Company's (and its ratepayers') exposure to volatile wholesale commodity markets and, hopefully, will help reduce the amount of swing in the Company's Deferred Gas Cost Account resulting from differences between the market price of wholesale gas paid by the Company and the cost of gas imbedded in Nashville Gas' rates. This shorter notice period will not have any negative impact on the Company's customers and is consistent with the PGA notice periods utilized by the other State public service commissions by which the Company is regulated

B. Elimination of Formula Approach to the PGA.

Nashville Gas further suggests that the Authority consider doing away with its formula approach to managing the Gas Charge Adjustment component of its PGA Rules. Instead, Nashville Gas proposes that it (and other Tennessee LDCs) be permitted to make changes in its PGA based upon either anticipated changes in its demand or commodity gas costs or the need to collect or refund amounts in order to

maintain reasonable balances in the Deferred Gas Cost Account. This move away from a formula approach would serve the same end as the existing rules – allowing the Company to recover its gas costs – but would permit LDCs more flexibility in managing the Deferred Gas Cost Account.

Under the Authority's existing PGA rules, Nashville Gas is entitled to implement three mechanisms to recover its gas costs. These are the Gas Charge Adjustment, the Refund Adjustment, and the Actual Cost Adjustment. The first mechanism is designed to permit the Company to properly recover its commodity and demand gas costs through periodic changes in its rates. This mechanism is formula driven and has very little flexibility. The Refund Adjustment is similarly formula driven and inflexible. The Actual Cost Adjustment is not formula driven and is designed to permit the Company to recover any under-recovery or refund any over-recovery in its Deferred Gas Cost Account. The collective goal for which these mechanisms are designed is to ensure that an LDC properly recovers its gas costs and to avoid any under-recovery or over-recovery of those costs.

As a result of changing dynamics in the natural gas marketplace, and particularly the wholesale commodity market, substantial under-recoveries in the Deferred Gas Cost Account can now be created in relatively short order. Depending on wholesale market conditions and the time of year, the efficient recovery of these imbalances under the existing formula based system for the Gas Charge Adjustment can be problematic. In order to address this issue, Nashville recommends that the Authority adopt a more flexible PGA mechanism that would permit the Company to better manage its Deferred Gas Cost Account. Specifically, Nashville Gas suggests that the TRA's PGA Rules be modified to eliminate the formula approach in favor of a mechanism that permits LDCs to make changes in the Gas Charge Adjustment based on either (1) an anticipated change in its demand or commodity gas costs, or (2) the need to reduce or increase gas cost

collections in order to manage its Deferred Gas Cost Account. These changes would provide needed flexibility to react to the volatility in the wholesale gas markets and to ensure that the balance of the Deferred Gas Cost Account remains at a reasonable level.

II. POTENTIAL CHANGES TO TRA PROCEDURES

Nashville Gas also believes that certain relatively minor modifications in the Authority's practices would be helpful in resolving matters brought to the TRA in an efficient and expeditious manner. These changes include the provision of proposed orders by parties to proceedings and a clarification of the practices of the Commission and its Staff with regard to when Staff acts in its advisory role versus when it acts in an adversary role.

A. Proposed Orders.

Nashville Gas suggests that the Authority require and/or accept the submission of proposed orders and findings by interested parties to proceedings before the TRA. Nashville Gas has participated in a number of proceedings in other states where proposed orders and/or findings were submitted by the parties for consideration by the Commission and that process appears to have been helpful in achieving a prompt resolution of disputed matters. In making this suggestion, Nashville Gas is mindful of the fact that the Authority only has a limited number of Staff personnel devoted to the preparation of orders and a large number of matters that require orders. Nashville Gas' belief is that the submission of proposed orders and findings may be useful to these individuals as the documents help to define the differences between the parties' relative positions, provide an organized approach to the review of the evidence and legal issues presented by the proceeding, and also provide potentially useful discrete findings. The structure of the ultimate order generated by the Authority is, of course, within the scope of its discretion, however, the process of arriving at that order may be assisted (and

would not be hindered) by the filing of proposed orders and findings by interested parties

B. Clarification of Staff Role in Certain Instances.

Nashville Gas also suggests that it would be useful for the Authority to take steps to clarify the role of its Staff in individual matters that arise before the TRA. Taking such steps would assist parties appearing before the Authority to make the correct procedural and substantive assumptions about interacting with the Staff in particular cases. This would ensure that the process before the Authority operates smoothly and efficiently and would prevent any unintended negative consequences that might result from a mistake as to whether the Staff is acting in an advisory or adversary role.

In Nashville's experience, the TRA Staff sometimes acts in an active adversary role in matters brought before the Commission. In that role Staff takes on the attributes of a litigant and participates fully in the adjudicative process, engaging in discovery, filing motions and generally acting as an advocate for a particular position. Nashville Gas understands that Staff implements "Chinese wall" procedures in such instances to ensure that the individuals involved in advocating a particular position do not inadvertently discuss that position with Staff personnel acting in an advisory role to the Authority. In Nashville Gas' view, this role for Staff is proper as is the effort to segregate those Staff members who are acting as advocates from those acting as advisors.

Staff also functions purely as advisors to the Authority in many cases. In this role, Staff does not usually engage in the full range of litigation practices and does not make public arguments as to what result should be reached. Nashville Gas also believes that this role is perfectly proper.

In the past, Nashville Gas has been unclear at times as to which role the Staff is operating under in particular instances and, as such, has not been clear as to what procedural rights were available to the Company with respect to the Staff in those cases.

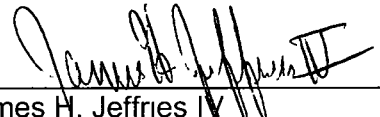
Authority Rule 1220-1-2-.21 provides for Staff participation as a party. As a minor adjustment of that Rule, however, Nashville Gas would ask that a notice requirement be put in place that would provide for the Staff to file and serve a notice that it is participating as a party in individual cases and would identify the Staff counsel and individuals acting as a party. This would ensure a clear understanding of the Staff's role in individual cases and would prevent inadvertent *ex parte* communications that could result between an active party and Staff based on a misperception of Staff's role in a particular case.

WHEREFORE, Nashville Gas Company, a division of Piedmont Natural Gas Company, Inc., respectfully requests that the Authority accept its comments and suggestions on the Authority's rules, policies and procedures as set forth herein.

Respectfully submitted this 28th day of February, 2005

Nashville Gas Company, a Division
of Piedmont Natural Gas Company,
Inc

By



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